



Testimony Of
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Conference Committee
Governor DeWine's Executive Budget Proposal
Fiscal Years 2024 and 2025

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Mr. Chairman, members of the Conference Committee, good morning and thank you for the opportunity to testify today on Amended Substitute House Bill 33, the fiscal years 2024 and 2025 Biennial Operating Budget. The work and collaboration with you and all members of the House of Representatives and Senate on this budget is very appreciated by Governor DeWine and his administration.

ECONOMIC UPDATE

I would like to begin my testimony by providing an update on the current state of the economy in Ohio.

Since January, when the Governor's Executive Budget was published, Ohio's labor market has continued to reach historically low levels of unemployment. As of May 2023, the state's unemployment rate was 3.6 percent, the lowest on record – and this data has been collected since 1976. Ohio's labor market participation rate increased in May to 62.1 percent, after growing 0.3 percentage points between March and April. While this growth demonstrates the strength of Ohio's labor market today, long-term concerns regarding labor market participation persist.

Ohio's economy, along with the nation's, has defied economists' recession predictions and continues to grow. However, as I testified earlier this year, these good times are not predicted to last forever. According to the S&P Global May forecast, Ohio's real GDP is expected to grow 0.4 percent in FY 2023, 0.3 percent in FY 2024 and 0.9 percent in FY 2025. In comparison to the 3.6 percent growth in FY 2022, these projections paint a picture of a decelerating economy. On the national level, growth in 2023 is also forecasted to slow, from 1.5 percent GDP growth in 2023 to 0.7 percent growth in 2024 and 1.3 percent GDP growth in FY 2025.

After nearly a year of interest rate increases by the Federal Reserve, inflation remains a persistent challenge throughout the United States. In May, prices increased at an annualized rate of four percent, and although the rate of inflation has decreased from the highs seen last summer, it remains above the Federal Reserve’s long-term target rate of two percent. Across the United States, retail consumption increased slightly in May, demonstrating that American consumers continue to spend, despite higher interest rates and higher prices. However, in recent months, many consumers have cut spending on discretionary purchases and interest-sensitive items but continued to purchase essential goods. Spending is predicted to slow further as personal savings are depleted and while the cost of borrowing remains high. The impacts of price instability and increased borrowing costs will continue to be felt across the economy.

Ohio’s labor market and our economy have been resilient and defied economic predictions over the past year. We’ve seen stable GDP growth and historic labor market conditions this fiscal year. Through conservative revenue forecasting and responsible financial governance, Ohio remains well-positioned to meet the challenges of the upcoming biennium and to continue our strong momentum on July 1st and beyond. Ohioans can be confident that our state’s finances continue to be focused on growth and prosperity across the state. Our state’s AAA credit rating is external validation that Ohio is a great investment and that our fiscal position is well-governed. I look forward to working with you this week and next, to ensure that Ohio remains on this upward trajectory.

UPDATE ON AVAILABLE REVENUES

The economy’s enduring resilience has supported this year’s tax revenue intake. Much slower growth was anticipated during fiscal year 2023 as compared to fiscal year 2022 due to the end of various economic stimulus measures; however, growth has been modestly higher than initially expected during the current fiscal year. OBM’s revised fiscal year 2023 tax revenue forecast is now \$28.76 billion, \$387 million, or 1.4 percent, above the forecast provided in the Executive Budget “Blue Book,” with most of the upward revision coming from personal income tax revenues.

Our forecast for the upcoming biennium is also revised upwards. Total GRF baseline tax revenue is now estimated to be \$29.45 billion in fiscal year 2024, an upward revision of \$513 million from the Blue Book. For fiscal year 2025, total baseline tax revenue is estimated at \$30.29 billion, essentially at the same level estimated for the Blue Book – a downward revision of just \$84 million. The table below outlines the actual and forecasted key economic variables that underpin the updated revenue forecast. In particular, note the large increases in transfer payments in fiscal years 2020 and 2021 – those were non-recurring injections of cash into the economy that boosted revenues, particularly during fiscal years 2021 and 2022, which have now run their course through the economy.

OBM continues to forecast tax revenues in a conservative manner. Estimates for major tax sources anticipate only modest growth during the biennium. Revenues for both non-auto sales tax and auto sales tax are expected to grow at a slower pace than in fiscal year 2023. Commercial activity tax revenues reflect considerably lower growth than witnessed in the past several years. Finally, personal income tax revenues reflect relatively modest estimated growth rates relative to historic growth rates for this source.

History and May 2023 S&P Global Baseline Forecast of Key Economic Variables, FY 2020-2025

Annual percent change unless otherwise indicated; annual amounts are averages of quarters

Output	FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Estimate	FY 2024 Forecast	FY 2025 Forecast
U.S. Real GDP	-0.7	2.3	4.0	1.5	0.7	1.3
Ohio Real GDP	-1.0	2.7	3.6	0.4	0.3	0.9
Income						
U.S. nominal personal income	6.0	7.6	2.7	5.1	4.7	4.5
Ohio nominal personal income	5.6	7.3	1.0	5.3	4.4	3.7
U.S. transfer payments	23.3	22.9	-14.8	1.2	3.6	4.0
Ohio transfer payments	23.7	19.7	-14.9	1.8	4.3	3.7
U.S. nominal wage and salary income	2.6	4.7	10.1	6.6	4.5	4.5
Ohio nominal wage and salary income	1.5	4.3	7.9	7.2	4.7	3.7
Employment						
U.S. nonfarm employment	-1.9	-2.8	4.8	3.2	0.8	-0.3
Ohio nonfarm employment	-2.7	-2.3	3.1	1.8	0.6	-0.3
U.S. unemployment rate (percentage)	6.0	6.9	4.2	3.5	3.8	4.3
Ohio unemployment rate (percentage)	6.6	6.6	4.3	4.0	4.4	5.2
Consumer Spending						
U.S. real personal consumption expenditure	-1.2	3.8	5.4	2.0	1.4	1.4
U.S. nominal personal consumption expenditure	0.1	5.9	11.5	7.3	4.5	3.9
U.S. light vehicle sales (millions of units)	15.06	16.31	13.44	14.56	15.14	16.22
U.S. light vehicle average price (thousands)	\$35.96	\$38.53	\$43.91	\$45.15	\$43.55	\$40.30

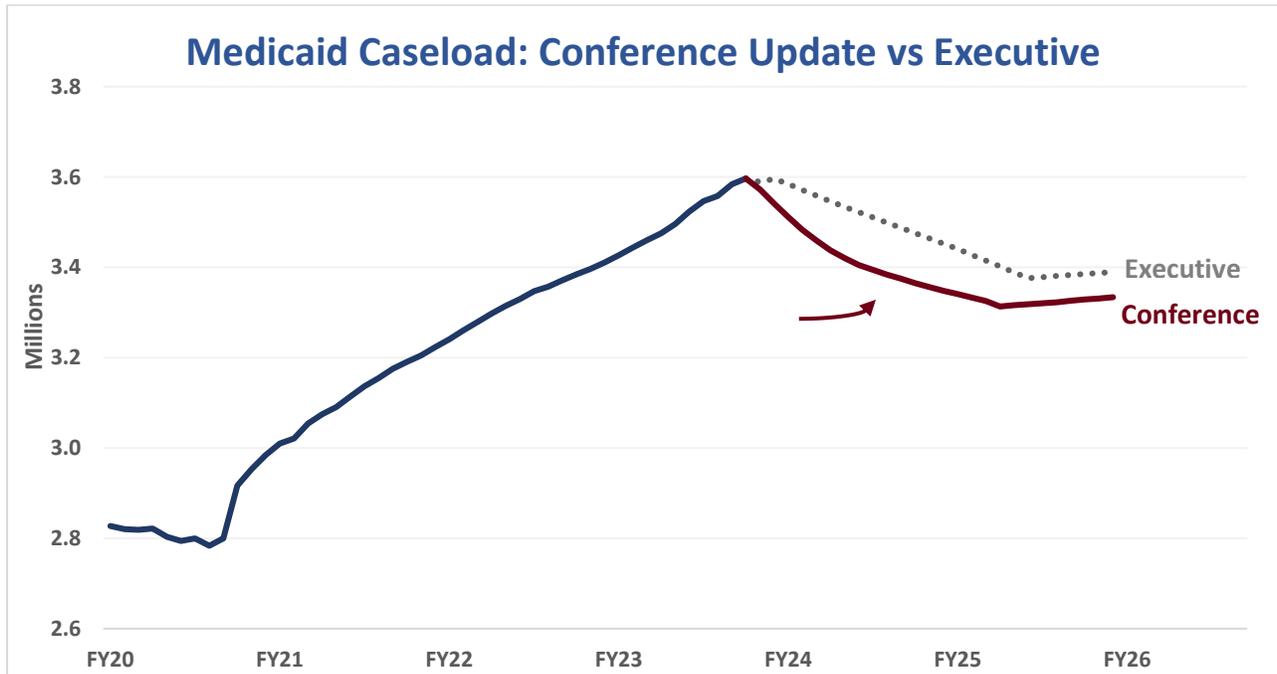
As I mentioned during my testimony to the House and Senate Finance Committees earlier this year, Governor DeWine's budget was carefully constructed to ensure that one-time dollars, like American Rescue Plan Act dollars and GRF dollars that exceeded estimates, are used for one-time expenses. Strategically allocating one-time resources in this manner will prevent a budget cliff in the future.

Additionally, with slowing economic growth and moderating consumer spending on the horizon, it is more important now than ever to maintain a structurally balanced budget. I appreciate the focus from both chambers on maintaining this balance.

REVISED MEDICAID ESTIMATES

I will now turn to our revised forecast of Medicaid caseloads, a major budget driver. Medicaid enrollment peaked in April 2023 at 3.59 million members, and in May we saw our first declines in enrollment since February 2020. While projections always assumed caseload decreases once the public health emergency ended and routine eligibility operations resumed, the projected 18-month decline began one month earlier than originally estimated – an indicator of the cooperation and hard work by both the Department of Medicaid and our counties. As a result of this and positive economic conditions, caseload estimates now project a decrease of 280,000 members over the next two years, ultimately resulting in reduced average monthly enrollment and therefore reducing baseline budget expenditure estimates over the biennium.

The updated baseline projection for all-funds Medicaid spending has decreased by \$1.2 billion over the biennium. The State share GRF estimate has decreased by \$252.3 million over the two fiscal years (-\$112.4 million in fiscal year 2024 and -\$139.9 million in fiscal year 2025). The decreases are primarily attributable to the updated caseload forecast and projected reductions in per-member-per-month costs. Ultimately, the updated Medicaid caseload and baseline budget projections reflect an improved economic outlook and early successes in returning to a post pandemic program.



CONCLUSION

Mr. Chairman, members of the Committee, my sincere thanks for the opportunity to address you today and for your collaboration throughout the budgeting process. Governor DeWine and Lt. Governor Husted appreciate your shared commitment to Ohio's families and children, our local communities and natural resources, our people and workforce, and our thriving and innovative economy. Each member of the Cabinet and I stand ready to assist with any information that you need as you work to finalize the biennial budget in the upcoming days. I look forward to working with you to ensure that our mutual priorities are supported. Together, we remain focused on assisting each Ohioan in reaching his or her God-given potential and on preserving our structurally balanced budget and our AAA credit rating, saving taxpayer dollars into the future. I am happy to answer any questions that you have.

Attachment 1

General Revenue Fund Baseline Revenues			
Fiscal Year 2023			
(dollars in millions)			
Revenue Source	Feb-2023 Executive Budget	Jun-2023 Conference Committee	CC vs. Executive \$ Change
Tax Revenue			
Auto Sales and Use	2,003.0	1,984.0	(19.0)
Non-Auto Sales and Use	11,428.4	11,463.0	34.6
Subtotal Sales and Use	13,431.4	13,447.0	15.6
Personal Income	10,428.6	10,733.0	304.4
Corporate Franchise	-	0.1	0.1
Financial Institutions Tax	233.0	240.0	7.0
Commercial Activity Tax	2,127.7	2,152.0	24.3
Petroleum Activity Tax	13.5	13.5	-
Public Utility	179.8	179.8	-
Kilowatt Hour Tax	282.5	278.2	(4.3)
MCF Tax	72.5	67.8	(4.7)
Foreign Insurance	344.8	351.4	6.6
Domestic Insurance	323.6	362.0	38.4
Business and Property	0.4	0.4	-
Cigarette and Other Tobacco Tax	817.9	817.9	-
Alcoholic Beverage	62.0	62.0	-
Liquor Gallonage	58.0	58.0	-
Estate	-	-	-
Total of Tax Revenue	28,375.7	28,763.1	387.4
Non-Tax Revenue			
Earnings on Investments	90.0	219.5	129.5
Licenses and Fees	100.0	117.3	17.3
Other Income	159.2	141.3	(17.9)
Interagency Transfers	13.9	85.4	71.5
Total of Non-Tax Revenue	363.1	563.4	200.3
Transfers In	5.0	11.7	6.7
Total Sources Excl. Federal Grants	28,743.8	29,338.2	594.4

Attachment 2

General Revenue Fund Baseline Revenues

Fiscal Year 2024-2025

(dollars in millions)

Revenue Source	FY2024, Executive Budget	FY2024, Conference Committee	CC vs. Executive \$ Change	FY2025, Executive Budget	FY2025, Conference Committee	CC vs. Executive \$ Change
Tax Revenue						
Auto Sales and Use	1,997.0	2,003.0	6.0	2,047.0	2,030.0	(17.0)
Non-Auto Sales and Use	11,673.5	11,796.0	122.5	12,162.2	12,180.0	17.8
Subtotal Sales and Use	13,670.5	13,799.0	128.5	14,209.2	14,210.0	0.8
Personal Income	10,723.1	11,115.0	391.9	11,544.5	11,506.0	(38.5)
Corporate Franchise	-	-	-	-	-	-
Financial Institutions Tax	230.0	236.0	6.0	235.0	241.0	6.0
Commercial Activity Tax	2,174.0	2,155.0	(19.0)	2,254.3	2,208.0	(46.3)
Petroleum Activity Tax	11.0	11.0	-	11.5	11.5	-
Public Utility	176.2	170.8	(5.4)	179.7	167.4	(12.3)
Kilowatt Hour Tax	283.6	278.3	(5.3)	271.3	271.1	(0.2)
Natural Gas Consumption	72.0	67.3	(4.7)	72.0	67.3	(4.7)
Foreign Insurance	353.4	354.9	1.5	362.2	358.4	(3.8)
Domestic Insurance	334.9	354.0	19.1	346.6	361.4	14.8
Business and Property	0.4	0.4	-	0.4	0.4	-
Cigarette	791.5	791.5	-	766.7	766.7	-
Alcoholic Beverage	62.0	62.0	-	62.0	62.0	-
Liquor Gallonage	59.0	59.0	-	60.0	60.0	-
Estate	-	-	-	-	-	-
Total of Tax Revenue	28,941.6	29,454.2	512.6	30,375.4	30,291.2	(84.2)
Non-Tax Revenue						
Earnings on Investments	165.0	165.0	-	150.0	150.0	-
Licenses and Fees	100.0	100.0	-	100.0	100.0	-
Other Income	34.2	34.2	-	15.0	15.0	-
Interagency Transfers	13.9	13.9	-	13.9	13.9	-
Total of Non-Tax Revenue	313.1	313.1	-	278.9	278.9	-
Transfers						
Total Transfers	310.0	310.0	-	300.0	300.0	-
Total Sources Excl. Federal	29,564.7	30,077.3	512.6	30,954.3	30,870.1	(84.2)